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SUBJECT: SHANGHAI OFFICIALS, U.S. BANKS DISCUSS CURRENT ECONOMIC
CONDITIONS WITH CODEL MORAN

REF: Beijing 2609

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(U) This cable is sensitive but unclassified. Not for
distribution outside USG channels.

¶1. (SBU) Summary: During a September 3-6 visit to Shanghai,
Representative James Moran (D-VA) and Joint Economic Committee
Chair Carolyn Maloney (D-NY) met with Shanghai municipal
government officials and American bank representatives to
discuss ways the US-China economic relationship could be used to
accelerate the recovery of the U.S. economy. Shanghai officials
stressed the importance of the bilateral trade relationship and
encouraged continued cooperation. Rep. Maloney met separately
with representatives of Wuxi-headquartered Suntech, one of the
world's largest producers of solar cells and modules, to urge
them to consider New York as a possible site for establishing a
manufacturing facility. End Summary.

Vice Mayor: Bilateral Economic Relationship Critical

¶2. (SBU) In a meeting September 4, Shanghai Vice Mayor Tang
Dengjie welcomed Moran and Maloney to Shanghai, provided an
overview of Shanghai's current economic climate, and lauded
increasing cooperation and exchanges between the U.S. and China.
Rep. Maloney noted President Obama's comment that ties between
the United States and China represent the most important
bilateral relationship of the twenty-first century. She
expressed concern, however, over imbalances in the U.S.-China
trade relationship. With respect to China's efforts to
restructure its economy, Tang stated that Shanghai is presently
relocating factories further inland and is in the midst of
restructuring its job market by placing an emphasis on the
service, public health, and financial sectors. He added that
these reforms would expand the number of opportunities for
bilateral cooperation, especially in the fields of science and
technology.

¶3. (SBU) Tang stated that wholly-owned foreign enterprises and
joint ventures comprise 70 percent of export operations in
Shanghai. The Chinese government actively encourages the import
of technology from abroad, he added. Local governments have
adopted policies that promote domestic consumption, such as
government subsidies for farmers to purchase new appliances and
tax credits similar to the U.S. Car Allowance Rebate System
(more commonly referred to as "cash for clunkers"), whereby car
owners are encouraged to trade in old vehicles for newer, more
efficient models. Tang highlighted GM's facilities in Shanghai
as an example of a major western company establishing a presence

and importing parts and technology from the United States. Rep. Moran thanked Tang for sharing his far-sighted views and expressed hope that they were shared by China's senior leadership. Rep. Maloney suggested that China consider relocating tire factories to depressed areas of the U.S. suffering from high rates of unemployment, such as Ohio and Pennsylvania. She mentioned that this would be a positive way to address simultaneously the trade imbalance and provide relief for U.S. unemployment in the wake of the global financial crisis. (Note: This meeting occurred prior to the USG "421" safeguards decision announcement. End Note)

Boosting Domestic Consumption Difficult

14. (SBU) In a separate meeting September 4, Shanghai Financial Services Office Director General Fang Xinghai emphasized that deregulation and decentralization were critical to boosting domestic consumption. Although China has experienced significant overall income growth over the last few decades, the wealth distribution is highly skewed, Fang explained, due in no small part to China's tightly regulated and controlled financial system. Fang added that reforms aimed at creating a more market-based system were needed. Until the tens of millions of smaller, technology-oriented enterprises obtain greater access to capital, substantial growth of domestic consumption in China will be extremely difficult to achieve.

BNY Mellon JV Open for Business...Almost

15. (SBU) Bank of New York Mellon (BNY Mellon) officials told CODEL Moran during a September 4 meeting that their China offices have two primary functions. First, to support its U.S. business operations, and second, to produce new business in

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China that can be serviced out of the United States. For example, they stated that BNY Mellon provides trade finance for U.S.-China trade to include letters of credit and bankers acceptances. Another major business is preparing Chinese companies to list American Depository Receipts (ADRs) on the New York Stock Exchange or NASDAQ.

16. (SBU) BNY Mellon is in the midst of opening a securities joint venture in China, the company representatives added. The final step, receiving final permission from the government, should occur in the next two to three months. According to the officials, the application process is as follows: 1) the bank must submit an application and receive initial approval; 2) hiring begins and office space rented, followed by a second government approval. BNY Mellon is awaiting the second (final) government approval. The joint venture company, with China's Western Securities, will market Chinese stocks to international clientele.

Citi: China Operations Turning a Profit

17. (SBU) Andrew Au, CEO of Citi China, told the delegation September 5 that Citi, for better or worse, is regarded as the U.S. "national bank" by China. Therefore, Citi is told by Chinese regulators that approval by U.S. authorities of Chinese bank branches in the U.S. is a quid pro quo for Citi opening branches in China.

18. (SBU) Generally, for a foreign-invested firm, operating in China is "a pain," but everybody makes "good money," Au claimed. For banks, profits come "the old fashioned way," by taking deposits and lending out money, making profits on the spread between the two rates. Financial sector growth in China is high owing to strong economic growth. Inefficiencies remain in the market that can still be exploited to generate profit. Citi has

RMB 6 billion in assets, and last year made a profit of around RMB 1.6 billion -- a return on equity for Citi (China) of around 20 percent, he explained.

¶9. (SBU) Turning to U.S.-China trade, Au downplayed the importance of the exchange rate and instead highlighted market opening. He said that concessions made by the Chinese in the SED did not necessarily benefit U.S. banks operating in China, adding that it was as if the U.S. had built a highway, and the first trucks down the highway were European. In his opinion, he noted that former Treasury Secretary Henry Paulson probably did not demand specific concessions for U.S. financial institutions. Au separately noted that the United States is respected as the global leader on financial policy issues, and Congressman Moran agreed, pointing out this respect in part was earned by the evenhandedness by which U.S. officials abide in bilateral negotiations.

¶10. (U) CODEL Moran cleared this report.
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